TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 607 – HB 648

April 21, 2015

SUMMARY OF ORIGINAL BILL: Makes various changes to the state sponsored health insurance plans for state, local education, and local government employees. Authorizes the State Insurance Committee to gradually reduce the state contribution for dependents of the cost of basic health plans from 80 percent in 2016 to 75 percent in 2017 and 70 percent in 2018. Authorizes the state to deny coverage for a state employee's spouse who is eligible for similar group health insurance through the spouse's employer.

Part-time or seasonal employees, hired after July 1, 2015, who work less than an average of 30 hours per week calculated on an annual basis will no longer be eligible for the state sponsored plan. Part-time employees hired before July 1, 2015, and meet the current eligibility standards of being employed at least 24 months and working 1,450 hours per year will be grandfathered into their current plan.

Extends certain health benefits to retired local government employees, but limits the benefits to any state, local education, local government, or higher education retiree whose employment commenced prior to July 1, 2015, and will grandfather in any employee who returns to state service after July 1, 2015, and did not receive a lump sum payment from the Tennessee Consolidated Retirement System (TCRS) before that date. Grants the State and Local Education Insurance Committees authority to establish a schedule of defined contributions for the coverage described above relating to retired state employees, retired local education employees, and retired employees of the higher education system.

Limits the option of former senators, representatives, governors, and their dependents to retain health benefits through participation in the active or retiree health benefit plan and paying the required contribution to those who were first elected prior to July 1, 2015.

Limits the supplemental medical insurance for retired state employees and teachers who are covered by Medicare benefits, as well as similar benefits that may be provided through a local education agency to retirees, or retired judges, county officials, and employees of TCRS participating employers to those employees whose initial employment with the state or other qualifying employer commences prior to July 1, 2015.

Establishes criteria for quasi-governmental organizations applying to participate in the local government insurance plan after July 1, 2015.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures – Not Significant

State Expenditures – Cost Avoidance – Exceeds $50,000

Other Fiscal Impact – Provisions of the bill grant the State Insurance Committee authority to reduce the state contribution for dependents of eligible employees to no less than 75 percent in calendar year 2017 and 70 percent in 2018. If the committee were to choose to reduce the state contribution, the reduced expenditures are estimated to exceed $8,069,100 in FY16-17, $24,207,200 in FY17-18, and $32,279,300 in FY18-19.

SUMMARY OF AMENDMENTS (004502, 006619): Amendment 004502 deletes the authorization for the gradual decrease in the state contribution for dependents of the state health plan and authorizes the State Insurance Committee to offer a defined contribution and other plan options. Requires the basic health plan and other plan options and the state premium support amounts to comply with a written policy approved by the Council on Pensions and Insurance before becoming effective. Requires, instead of authorizes the local education insurance committee to establish a health benefit for retired local education employees. Revises the retirement benefits authorizing the state insurance committee to offer a defined benefit and a defined contribution and specifies that eligibility may be denied for a spouse of a retiree who has employee sponsored health insurance.

Establishes a Board of Trustees comprised of the Commissioner of Finance and Administration, the Chair of the Senate Finance, Ways and Means Committee, the Chair of the Finance, Ways and Means Committee of the House of Representatives, and the Chair of the Consolidated Retirement Board to manage any retirement investment vehicles established by the State Insurance Committee as a health benefit. The Department of Treasury will be responsible for all administrative functions of the investment portions of the vehicles.

Defines "other post-employment benefits" OPEBs or "post-employment benefits" and requires the Board of Trustees to establish an investment trust or trusts for the purpose of pre-funding OPEBs accrued by employees of the state, to be paid as they come due in accordance with the arrangements between the state, the plan members, and their beneficiaries. The trustees are required to adopt in writing an investment policy or policies authorizing how assets in the trust may be invested and authorizes investments in any security or investment in which the TCRS is permitted to invest. The State Treasurer is responsible for the investment and reinvestment of trust funds in accordance with the policies and guidelines established by the trustees. The initial funding of any trust created under this part shall be from appropriations made in the General Appropriations Act for such purpose.

Amendment 006619 limits the applicability of the changes in the state employee, local education, and local government health plans to persons whose initial employment or service with the state commenced on or after July 1, 2015. Authorizes employees who leave with at least two years of service to continue to participate in the health benefit if the employee pays 100 percent of the premium and authorizes the Division of Benefits Administration or the local government plan administrator to charge a two percent administration fee for the extension of coverage. Requires the retiree coverage to be fully paid by any state, local education, local government, or higher education retiree whose employment commenced on or after July 1, 2015, and will grandfather in any employee who returns to state service after July 1, 2015, and did not receive a lump sum payment from the Tennessee Consolidated Retirement System (TCRS) before that date.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Increase State Expenditures – Not Significant

State Expenditures – Cost Avoidance – Exceeds $50,000

Other Fiscal Impact – Initial funding for the OPEB trust fund has to be appropriated. Expenditures to administer the trust have to be paid out of the fund. OPEB liabilities will not be reported on the Comprehensive Annual Financial Report until 2018. The initial appropriation will be made in a future year and will include sufficient funding to cover the administrative costs incurred by the Department of Treasury to administer the trust.

Assumptions for the bill as amended:

- Based on information provided by the Department of Finance and Administration, Division of Benefits Administration, the provisions of the bill as amended are not significant.
- The provisions of the bill will reduce the number of part-time employees who are eligible for the state sponsored health plans. Based on information provided by the Division for another piece of legislation, there are approximately 5,513 part-time employees. It is unknown how many of the 5,513 part-time employees currently meet the eligibility requirements, but of those, approximately 102 employees are currently enrolled in the state sponsored health plan. These 102 employees will be able to keep their coverage under the plan. Based on current full-time employee enrollment data and calendar years 2015 and 2016 premium amounts, the estimated cost in FY15-16 for the part-time employees is $1,092,377.
- Based on the small number of part-time employees who currently participate in the state sponsored health plan, it is assumed that reducing the eligibility requirements for future part-time employees will only impact a small number of part-time employees. It is reasonable estimated that any cost avoidance will exceed $50,000 which is approximately five percent of estimated part-time employee costs in FY15-16.
- The retiree health benefits will not be available to any employees hired on or after July 1, 2015, unless grandfathered in due to previous employment. The current state obligation for pre-65 retirees is $1,200,000,000 and Medicare supplement recipients is $154,000,000. The state paid approximately $23,654,700 in 2014 for retiree dependent premiums. By eliminating these benefits, the state will reduce future retiree and Medicare supplemental liabilities. The exact impact this will have is unknown, but could have an impact on the state's bond ratings due to the state liabilities reported on the Comprehensive Annual Financial Report. These OPEB liabilities will not be reported until 2018.

- Pursuant to the provisions of the bill as amended, the initial funding of any OPEB trust will be from appropriations made by the General Assembly in the general appropriations act. The Department of Treasury will incur an increase in administrative expenditures to administer the investments of the OPEB trust fund. Any increase in expenditures will paid from the OPEB trust fund. It is assumed that any initial funding for the trust fund will be appropriated in a future year and funding to cover the Department of Treasury expenditures will be included in such initial funding.
- Amendment 006619 will not result in an immediate direct cost to the state because it requires the employee to pay 100 percent of the premium for the health insurance benefits and retiree benefits. There is also a provision allowing the Division of Benefits Administration to charge an administrative fee for the extension of coverage. Therefore, while an exact impact cannot be determined for the extension of health insurance benefits and retiree because there is no way to determine the number of employees who would enroll, it would result in an increase in both state revenue and expenditures which are estimated to be a net not significant.
- Based on information provided by the Division of Benefits Administration, the expansion of retiree benefits will lead to increased OPEB liability. Since it is unclear which premium rate the Insurance Committee would choose to implement and the take-up rate of the retiree benefits, the exact impact cannot be reasonably determined. Any direct fiscal impact based on the OPEB liability will be incurred in future years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Jeffrey L. Spalding, Executive Director

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